

DRAFT SETTLEMENT AGREEMENT

The undersigned signatories to this Settlement Agreement hereby agree to the following:

1. In the Bonneville Power Administration (BPA) 2004 Transmission Rate Case (Rate Case), the Transmission Business Line (TBL) will submit an initial proposal for the period FYs 2004 – 2005 (Rate Period) that reflects the following:
 - a. Current 2002 transmission and ancillary service rates are increased by 1.5%, and the 2002 transmission and ancillary rates and rate schedules are otherwise unchanged except as explicitly set forth below. If a rate schedule includes a maximum charge for any rate, the increase in rate level shall be applied to the maximum charge. The following transmission and ancillary service rates will be increased by 1.5%: FPT-02.1; IR-02; PTP-02; IS-02; IM-02; ACS-02; and Delivery Charge (Utility Delivery). The FPT-02.3 charges will remain in effect for FY 2004, and will be increased by 3% for FY 2005.
 - b. The NT Base Charge and Load Shaping Charge are increased by 1.5% over 2002 rate levels. In addition, the NT Load Shaping Charge is increased by an additional \$0.015/kW per month to recover a portion (\$1 million) of the total cost paid by the Transmission Business Line to the BPA Power Business Line for redispatch associated with NT service. The NT rate schedule is otherwise unchanged.
 - c. The ACS rate schedule will reflect the changes specified in Attachment 2 to this Settlement Agreement.
 - d. The Unauthorized Increase Charge (UIC) under the PTP rate schedule will equal two times the total PTP charges applicable to the transaction for the product purchased, not to exceed 2 times the monthly rate for Long-Term Firm PTP Transmission Service. The UIC under the NT rate schedule will equal two times the NT Base Charge.

The initial proposal transmission and ancillary service rates are shown on Attachment 1.

2. Redispatch

- a. The signatories recognize and agree that there is an incremental cost associated with the redispatch of hydro resources. Also, the signatories agree that once such a methodology is technically feasible the preferred approach to compensating for redispatch is to pay the entity providing the redispatch the actual incremental cost of the redispatch. The signatories agree that during the FY 2004-2005 Rate Period they will work towards implementing this approach so that hydro-electric and other generation can be appropriately compensated for redispatch in the future.

In the interest of reaching a settlement the signatories agree to the following mechanism for compensating the BPA Power Business Line (PBL) for providing redispatch during the Rate Period. However, nothing in this settlement will serve as a precedent for valuing redispatch for future rate periods or for the purpose of determining the rights of an RTO or any other regional transmission provider to require redispatch. The redispatch made available to TBL by the PBL is the redispatch of Network Resources contemplated by Section 33.2 of the Open Access Transmission Tariff (OATT). The revised OATT Attachment K (shown in Attachment 3) will replace the existing

Attachment K. PBL and TBL will have systems in place on October 1, 2003, to track the amount of redispatch provided by PBL. Based on the terms described below, PBL and TBL will track the amount of redispatch for the term of the rate period.

The TBL will compensate the PBL for redispatch services according to a method and amount specified in an interbusiness line agreement.

- b. TBL will submit the revised Attachment K (specified in Attachment 3 to this Settlement Agreement) to the Federal Energy Regulatory Commission (FERC) as a proposed amendment to BPA's Open Access Transmission Tariff, and will request that it be effective as of October 1, 2003. If the Administrator establishes transmission rates consistent with the TBL's initial proposal, the signatories agree not to challenge the approval of the revised Attachment K by FERC, and agree not to challenge such revised Attachment K in any judicial forum.
3. The TBL will convene a Business Practices and Systems Forum as set forth in Attachment 4 to this Settlement Agreement.
4. No later than October 1, 2003, TBL will have appropriate scheduling and reservation systems in place so that customers are able to redirect firm transmission service by modifying points of receipt and delivery and are able to return to their original points upon expiration of the redirected service, in accord with FERC policy. TBL will make best efforts to have such systems available for testing by March 1, 2003.
5. The signatories agree not to contest any aspect of the TBL's initial proposal, including but not limited to the level of any transmission or ancillary or control area services rate or any of the elements thereof, the methodologies and principles used to derive such rates, or any aspect of the rate schedules, and agree to waive their rights to cross-examination and discovery with respect thereto.
6. If every party in the rate case agrees not to contest any aspect of the TBL initial proposal, the TBL will propose to the Administrator that he adopt the TBL's initial proposal and establish rates consistent therewith. In addition, the TBL's commitment in section 4 of this Settlement Agreement shall apply only if every party in the rate case agrees not to contest any aspect of the TBL initial proposal.
7. If any party does contest any aspect of the TBL initial proposal, the TBL may but is not required to propose to the Administrator that he adopt rates consistent with the initial proposal.
8. The signatories will not enter any evidence into the 2004 Transmission Rate Case, or make any argument in the Rate Case, contesting any provision of section 36 of BPA's current OATT, and will not make any such argument before the FERC or any judicial forum as to the application of section 36 during the FY 2004 - 2005 rate period.

9. The signatories will move the Hearing Officer to specify a date by which any party to the 2004 Transmission Rate Case that has not executed this Settlement Agreement must object to the settlement proposed in this Settlement Agreement or waive any right to do so. In the event that any party does so object, the TBL may revise its initial proposal as it believes appropriate. In such case the signatories may contest such proposal and pursue all of their procedural rights.
10. Nothing in this Settlement Agreement is intended in any way to alter the Administrator's authority and responsibility to periodically review and revise the Administrator's transmission rates or the signatories' rights to challenge such revisions.
11. If the Administrator establishes transmission rates consistent with the TBL's initial proposal and submits such rates to FERC for confirmation and approval, the signatories agree not to challenge such confirmation and approval of such rates or any element thereof, including the methodologies and principles used to establish such rates, or support or join any such challenge, and agree not to challenge such rates or any element thereof, including the methodologies and principles used to establish such rates, in any judicial forum.
12. The signatories agree that they will not assert in any forum that anything in this Settlement Agreement or any action taken or not taken by any signatory, the Hearing Officer, the Administrator, FERC, or a court with respect to the rates proposed by the TBL pursuant to this Settlement Agreement, or with respect to BPA's OATT, creates or implies any procedural or substantive precedent or creates or implies agreement to any underlying principle or methodology, or creates any precedent under any contract between BPA and any signatory.
13. The signatories do not waive any right to assert in the appropriate forum that any rate, charge, or rate schedule has been improperly applied.

This Settlement Agreement may be executed in counterparts.

/s/ _____ for

Party

Date _____

Attachment 1 Initial Proposal Rates

RATE	\$/kW/mo (except where noted)
FPT-04.1 Main Grid <ul style="list-style-type: none"> Distance Interconnection Terminal Terminal Miscellaneous Facilities Secondary System <ul style="list-style-type: none"> Distance Transformation Intermediate Terminal Interconnection Terminal 	\$0.0511/mile 0.53 0.59 2.91 \$0.5021/mile 5.49 2.12 1.50
FPT-04.3 (FY 2005) * Main Grid <ul style="list-style-type: none"> Distance Interconnection Terminal Terminal Miscellaneous Facilities Secondary System <ul style="list-style-type: none"> Distance Transformation Intermediate Terminal Interconnection Terminal * FPT-04.3 rates will remain at FPT-02.3 levels for FY 2004, and increase by 3% (shown here) over FPT-02.3 levels for FY 2005.	\$0.0518/mile 0.54 0.60 2.96 \$0.5095/mile 5.57 2.15 1.52
IR-04	1.261
NT-04 <ul style="list-style-type: none"> Base Load Shaping 	1.028 0.425 * *(reflects 1.5% + \$1M)
PTP-04 <ul style="list-style-type: none"> Long-Term Short-Term (per day) <ul style="list-style-type: none"> Days 1-5 Day 6 and beyond Hourly 	1.028 .047 .035 2.96 mills/kWh

Attachment 1
Initial Proposal Rates (cont'd)

RATE	\$/kW/mo (except where noted)
IS-04 <ul style="list-style-type: none"> • Long-Term • Short-Term (per day) <ul style="list-style-type: none"> • Days 1-5 • Day 6 and beyond • Hourly 	1.176 .054 .040 3.39 mills/kWh
IM-04 <ul style="list-style-type: none"> • Long-Term • Short-Term (per day) <ul style="list-style-type: none"> • Days 1-5 • Day 6 and beyond • Hourly 	1.258 .058 .042 3.61 mills/kWh
Utility Delivery Charge	.946
Unauthorized Increase Charge	2.056
ACS-04 <p>Scheduling</p> <ul style="list-style-type: none"> • Long-Term • Short-Term (per day) <ul style="list-style-type: none"> • Days 1-5 • Day 6 and beyond • Hourly <p>Generation Reactive</p> <ul style="list-style-type: none"> • Long-Term • Short-Term (per day) <ul style="list-style-type: none"> • Days 1-5 • Day 6 and beyond • Hourly <p>Regulation and Frequency Response (Ancillary & Control Area rates)</p> <p>Operating Reserves (Ancillary & Control Area rates)</p>	.166 .008 .005 0.48 mills/kWh .067 .003 .002 0.19 mills/kWh .30 mills/kWh 8.39 mills/kWh

Attachment 2 ACS Rate Schedule Proposal

I. Energy Imbalance and Generation Imbalance Rates

BAND 1: Deviation band of + or - 1.5% (with a minimum of + or - 2 MW) of the hourly scheduled energy.

Settlement: If deviation balance is not zero, settlement will occur at the end of month using BPA's incremental cost.

BAND 2: Deviation band of greater than + or - 1.5% (with a minimum of + or - 2 MW) and less than or equal to + or - 7.5% (with a minimum of + or - 10 MW) of the hourly scheduled energy.

Settlement:

Positive Deviations: BPA's incremental cost plus 10%.

Negative Deviations: BPA's incremental cost minus 10%.

Wind resources and generators being tested before commercial operation will not be subject to Band 3.

BAND 3: Deviation band of greater than + or - 7.5% (with a + or - 10 MW minimum) of the hourly scheduled energy.

Settlement:

Positive Deviations: BPA's highest incremental cost within a day for the HLH period and for the LLH period plus 25%.

Negative Deviations: BPA's lowest incremental cost within a day for the HLH period and for the LLH period minus 25%.

NOTE: If the posted energy index is not an hourly index, the highest and lowest incremental cost for the day would be the daily energy index price posted for HLHs and LLHs.

BPA Incremental Cost

Based on an PNW energy index (an hourly index, if an adequate hourly index exists), posted on the OASIS 30 days prior to use.

Intentional Deviation

Negative Deviations: No credit will be given.

Positive Deviations: The greater of 100 mills/kWh or the Band 3 penalty.

Spill Conditions

No credit is given for negative deviations for any day that the Federal System is in a Spill Condition for any hour of that day.

II. Operating Reserves Rates – Spinning and Supplemental

The generator in the BPA Control Area shall have the obligation for contingency energy return/purchase, except that the transmission customer shall have the obligation for contingency energy associated with an interruptible import.

III. Scheduling, System Control and Dispatch and Reactive Supply and Voltage Control From Generation Sources Rates

Clarification that rates apply to reservations of transmission capacity regardless of whether the Transmission Customer uses (schedules) the transmission.

Attachment 3

Open Access Transmission Tariff Revised Attachment K

For the period October 1, 2003, through September 30, 2005, to the extent the Transmission Provider determines that redispatch of Network Resources is necessary to maintain Network schedules, the Transmission Provider shall implement redispatch in accordance with the provisions of this Attachment K.

1. The Transmission Provider will use redispatch only to relieve constraints on the FCRTS that threaten the reliability of Network Schedules. The Transmission Provider will redispatch the system only to the extent necessary to maintain the Network schedules.
2. The Transmission Provider will not issue any redispatch instructions until it has curtailed all non-firm schedules across the constrained path.
3. The Transmission Provider shall not issue redispatch instructions to increase ATC.
4. The PBL will inform the Transmission Provider of all non-power constraints that limit the PBL's ability to redispatch generation resources. The Transmission Provider will not violate these non-power constraints unless an emergency situation leaves no other alternative for maintaining system reliability. Notwithstanding any other provision of Attachment K, the protection of transmission system reliability and the safety of people and property will be the primary criteria the Transmission Provider will use in an emergency situation.
5. PBL will provide the Transmission Provider federal hydroelectric generation resource set points. If the share of the set points specific to NT service provided by PBL are outside the agreed upon amounts for NT rights, the Transmission Provider has the right to adjust the set points to the pre-determined limits. This adjustment to federal hydroelectric projects will not count as a redispatch and it will be done before any schedules are curtailed.
6. For redispatch that occurs within the hour of delivery
 - a. If the Transmission Provider determines that a redispatch of federal hydro-electric projects is necessary to maintain the reliability of the FCRTS in real-time and the Transmission Provider is unable to calculate the portion of the constraint attributable to NT schedules, the Transmission Provider may redispatch the federal hydro-electric projects as necessary to relieve the constraint for the remainder of the hour and, if the event occurs half past the hour, for the next hour also. However, the Transmission Provider must make the determination described in section 7 prior to the beginning of the next hour and adjust the redispatch instructions accordingly.

7. For Day-ahead and Hour-ahead redispatch:
 - a. If the Transmission Provider determines that a constraint can be relieved by redispatching federal hydro-electric projects, the Transmission Provider will determine what portion of the constraint is caused by NT schedules and what portion is caused by PTP schedules. Then the Transmission Provider will issue a redispatch instruction in an amount that will relieve the NT portion of the constraint and will curtail the PTP schedules in an amount necessary to relieve the PTP portion of the constraint.
 - b. If the Transmission Provider determines that the portion of the constraint caused by NT schedules cannot be relieved by only redispatching federal hydro-electric projects, the Transmission Provider will contact the PBL schedulers and inform the PBL schedulers of the amount of NT schedule associated with the constraint. The PBL schedulers will attempt to relieve the constraint by the least cost means, including, but not limited to, purchasing alternative transmission from a third party, purchasing replacement generation from a third-party and redispatching federal generation accordingly, or requesting third party generation to decrease and using federal generation to replace the third-party generation. In making these arrangements the PBL will act as a purchasing agent for the Transmission Provider.
8. The Transmission Provider will not request redispatch for any purpose other than that stated herein or otherwise required by the tariff.

Attachment 4

Business Practices and Systems Forum

BPA TBL will meet with Transmission Customers at least three times between November 2002 and September 2003 to discuss Business Practices and systems used to implement TBL's Open Access Transmission Tariff and its Transmission and Ancillary Service Rate Schedules. TBL agrees to discuss the following issues identified during TBL Rate Case Workshops held in September and October 2002:

1. TBL's Business Practices on Operating Reserves – Spinning and Supplemental Services,
2. Real Power Losses,
3. Curtailment during Real-Time, and
4. Scheduling practices and associated systems, including wind resource scheduling.

Prior to the first meeting, TBL will draft and circulate principles to govern the meetings. TBL will post on its website the meeting location and agenda at least 10 days prior to each meeting. The first meeting will take place no later than December 13, 2002.

TBL and the Transmission Customers agree to use best efforts to ensure that the appropriate technical, and other, staff attend the meetings (either in person or by telephone conference) to facilitate meaningful discussions.

The parties agree that these meetings are designed to supplement, not revise, TBL's existing process to develop its Business Practices and systems. Further, while TBL agrees to work in good faith to discuss and address Transmission Customer concerns, TBL retains discretion to determine whether to make any changes to its Business Practices or systems as a result of the meetings. TBL will use the meetings to solicit feedback for use in developing or revising its Business Practices or systems, but is under no obligation to develop new Business Practices or systems or make any changes to existing Business Practices or systems. If TBL changes its Business Practices or systems, whether on its own or as a result of Transmission Customer input at the meetings, it will use its best efforts to implement those changes in a timely manner pursuant to TBL's established Business Practice process. The Transmission Customers retain all rights under TBL's Open Access Transmission Tariff, as it may be amended, to challenge TBL's Business Practices.